U1880-3

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

November 1990

Dr. Donald Ratajczak, Director
For Release: Wednesday, December 5, 1990

WILL THE FED COME TO THE RESCUE?

Although the largest uncertainty overhanging the economy remains the middle east and the availability of oil, the current recession was not caused by oil prices alone. As the thrift bill rose, regulators became determined to insure that the same attempt to grow their way out of trouble would not cross the minds of commercial bankers. They decided to redefine loan quality, leading to a substantial reduction in credit availability for those with hard-to-support business plans or with loan collateral whose value was suspect. This led to substantial reductions in loans to real estate development and to growing small businesses who could not justify their growth plans in terms of conservative criteria. (Do we really want our growth companies to be conservative? Rather, banks should hold a portfolio of such loans so that prudent risk rules are followed. Instead, the regulators want banks to hold no loans with normal risk associated with growth.) Because of these regulatory constraints, loan activity has not grown since last November.

After the regulators began their reinterpretation of prudent risk, the Federal Reserve made a tactical error by linking interest rate reductions to approval of a believable budget restraint by the Congress. As we know, the Congress stalled before passing a program whose spending constraints remain suspect and whose tax increases actually add to inflation through higher consumer prices and reduced savings incentives. While the Federal Reserve was awaiting this package, it stabilized short-term interest rates. However, weakness from the regulatory crunch was reducing the demand for money. If the demand for a commodity is falling, but prices are kept unchanged, then supply must also contract. Therefore, money growth stopped in late summer as the Fed awaited budgetary action. The result was an inadvertent reduction in money growth at a time when the economy was already stalling.

Instead of shifting the mix of macroeconomic policies toward budgetary restraint and monetary ease, the Federal Reserve agreement led to simultaneous restraint in money growth while the Congress was trying to restrain a runaway budget. Restraining fiscal and monetary policy at the same time can easily lead to an economic downturn.

COLLEGE OF BUSINESS ADMINISTRATION
GEORGIA STATE UNIVERSITY
UNIVERSITY PLAZA
ATLANTA, GEORGIA 30303-3083
404-651-3282

Of course, the mideast provides the third major factor leading to economic weakness. The wealth transfer associated with rising oil prices already has restrained consumer spending. Moreover, the threat of war has ruffled consumers, causing a shift in the desire to save during these uncertain times. As a result, consumer spending is plummeting. Because of strong rental and corporate fleet sales, auto sales have remained stronger than anticipated. However, this strength should vanish by the winter. While some rebound is likely after that, income growth will remain too low to sustain any meaningful recovery. Because the consumer is leading this downturn, just as she led to expansion, recovery should be gradual rather than abrupt. Those abrupt recoveries occur because of inventory swings. Because just-in-time processing currently is being used, such inventory excesses leading to sharp production curtailments followed by a snapback of economic activity are not likely.

Actually, prospects for the middle east have deteriorated. The shift to an offensive stance adds options, but the opening of diplomatic channels would substantially reduce American credibility in that part of the world if the UN resolutions are not enforced. Apparently, we are drawing a line in the sand, hoping that Hussein blinks, much as the Russians did during the Cuban missile crisis. They may blink, or we may initiate hostilities (probably by forcibly supplying our embassy in Kuwait.) However, the option of containment until the inconsistencies of the Iraqi economy begin to cause interior decay cannot be the outcome of this confrontational approach. (With a million men in arms of 19 million Iraqis and with few guest workers left in the Iraqi economy, a substantial and sustained reduction in living standards must develop. The process appears slow because the Iraqis used the accumulated inventory in Kuwait, but that is a one-time relief from economic stress).

The financial markets have not been disturbed by the apparent removal of containment as an option because war has now been delayed until after the middle of January. Moreover, the discussions offered by the U.S. are seen as an attempt to negotiate a settlement, when they really are a part of the confrontational strategy. Thus, the financial markets will respond to domestic economic conditions until after the holidays, when war again will dominate investors' thinking. Also, the delay of war until mid-January, toward the end of the heating season, means that serious supply disruptions should not impair economic activity until the summer, when any conflict probably will be over. Thus, peak oil prices probably will be no higher than the middle $40s per barrel even if hostilities are damaging to the supply.

In the meantime, the recession is deepening because economic policy remains restrained. While the consensus remains a mild recession, rising unemployment claims and falling construction contracts suggest that a moderate recession is now as likely as a mild affair. With construction contracts down 10% this year, little increase in private expenditures is likely until the second half of next year. As construction normally behaves as a leading indicator of economic recovery, this may delay the upturn until the second half of the year.

Also, some doubts about the strength of world demand, and therefore the growth of American exports has begun to surface. Japan currently faces a liquidity crisis because of the shrinking capital base of its financial institutions. Eurodollar lending rates have soared as Japanese investors seek liquidity. Because this liquidity squeeze dramatically reduces capital flows into Japan for long-term capital, the yen is under attack. As a result, the dollar has actually strengthened recently, but the Japanese expansion clearly is threatened. If Japan falters, all of Asia could slow swiftly. This would substantially restrict American markets.

Furthermore, Eastern Europe is not as ready to spend for infrastructure as most investors wish to believe. The costs of rebuilding in East Germany may approach a half trillion dollars. While the German economy certainly can handle this cost over several years, the remaining states in Eastern Europe clearly will struggle for some time. Some financial analysts already have begun wondering whether Eastern Europe will be the new LDC loan problem.

One hurdle that must be overcome almost immediately is the need for hard currency to buy energy materials after January 1 as Comecon becomes moribund. This additional claim against foreign exchange will delay the day when Eastern Europe will be able to pay off the loans that are currently needed to develop new technologies. Without purchasing power, an unmet need remains unmet.

While regular readers of this report will not readily notice any changes, substantial alterations to the estimating structure have been incorporated in the latest PROJECTIONS. The consumption, income, savings relationships have been made more consistent. Of course, not enough monthly data are available to incorporate appropriate wealth effects and expectations responses, but the changes that are being used should improve the consistency of these sectors. The interaction of prices with the GNP deflator also have been changed to reflect the difference between domestic prices and the prices of domestic production (differences in terms of trade should be responsible for much of this discrepancy, but some definitional problems also exist because inventories are deflated with a domestic price index, as explained in a previous report). Because of surging oil prices, the deflator is being held down. However, reports by other forecasting activities persist in holding down the deflator relative to fixed weighted indices even when the terms of trade shift. For that reason, several forecasts currently are understating inflationary conditions. We hope that our adjustments will more appropriately reflect short-term price dynamics. Thus, the deflator will be less than expected when oil prices are rising, as it was during the summer. However, when oil prices begin to fall, the deflator will be stronger than expected. Unfortunately, these distortions with respect to trade terms makes the deflator a poor measure of short-term inflationary conditions.

The pricing relationships between the consumption deflators, the CPI and the PPI also have been altered. Traditionally, we have done well at anticipating changes in the fixed weighted indices but have erred in the deflators. We hope these adjustments will minimize those errors.

Substantial adjustments also have been made to the GNP estimators, the adjusted profits methodology, the stock market valuations, and the leading indicators. Our current analysis assumes a brief period of conflict followed by falling oil prices and consumer relief early in 1991. The rise and subsequent fall in interest rates and the reverse pattern for stock values is reflected in the tables. If our assumptions are correct, even warfare will have only a fleeting, though damaging, impact upon economic conditions. Of course, a prolonged war or extensive damage to oil deliveries will require less favorable conditions.
Of course, the greatest value to this report is the monthly pattern of economic conditions. Our estimates indicate that GNP peaked in August. Indeed, virtually all the 1.7% growth occurred by July. In October, economic activity apparently fell at a 2.8% annual rate. If the November data confirm our PROJECTIONS, activity will be falling at a relatively brisk 4%. There no longer is any doubt that a recession is under way.

However, policy makers will err badly by assuming that the middle east crisis caused this weakness and only a resolution of that crisis will end it. Rather, weakness was apparent in the spring because of regulatory restraint and intensified in the summer, at least partially because of Federal Reserve restraint. If those factors are not reversed, even a resolution of the Persian Gulf will not resolve the downturn. The Federal Reserve cannot produce oil, but it can provide liquidity. Federal Reserve action is overdue.

Monthly Statistical Highlights

	NOVEMBER 1990	DECEMBER 1990	JANUARY 1991
Payroll Employment	-107,000	-57,000	-45,000
Index of Hours Worked	0.0	-0.1%	-0.2%
Household Employment	-127,000	-58,000	-48,000
Civilian Unemployment Rate	5.9%	6.0%	6.1%
Personal Income	0.3%	0.4%	0.2%
Savings Rate	3.8%	3.9%	3.7%
Personal Consumption	0.2%	0.3%	0.5%
Retail Sales	-0.2%	-0.1%	0.3%
Auto Sales	9.2*	9.1*	9.1*
Housing Starts	-2.1%	1.2%	1.6%
Housing Permits	-2.1%	0.6%	1.0%
Construction Expenditures	-2.0%	0.0%	0.3%
Business Inventories	0.3%	0.3%	0.3%
Orders for Durable Goods	-2.1%	0.1%	-0.3%
Orders - Nondefense Capital Goods	-10.1%	0.8%	-1.8%
Industrial Production	-0.5%	-0.2%	-0.1%
CPI	0.5%	0.4%	0.4%
PPI	0.3%	0.3%	0.5%
Consumption Deflator	0.4%	0.4%	0.5%
Leading Indicators	-0.4%	-0.1%	-0.1%
Currency Index	-2.2%	-0.4%	-1.0%
Equity Index	5.3%	2.9%	-1.9%
Real GNP (annual rate)	-4.0%	-2.0%	-2.3%
M1 (annual rate)	5.4%	3.9%	4.4%
M2 (annual rate)	-0.2%	7.4%	4.6%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Initial claims, which averaged a recessionary 425 thousand in October, have increased to nearly 480 thousand in November. This assures a substantial decline in payroll employment. However, the November reference week also falls on a holiday, as in October. Therefore, the workweek may not rebound as much as initially expected. The sharp slowing in hourly earnings reflects the loss of high wage jobs rather than any moderation in wage pressures. Once the declines stabilize, some improvement should be expected in this index.

PERSONAL INCOME AND OUTLAYS-As expected, wages and salaries fell sharply, with distributive and service wages falling along with the expected declines in goods production. The workweek should not fall further. Therefore, modest wage growth is likely in the next few months. Personal income was able to increase because of a surge in transfer payments, much of which reflected retirements by government employees. Further gains in such transfers are likely in November before subsiding early next year. Farm income should rebound during the fall, as crop subsidies are distributed.

Even with substantial reductions in consumption after inflation, wages are slowing more rapidly than consumption. Thus, savings continue to decline. When oil prices ease, savings will again rise, but weak economic activity will continue to restrain the growth of consumer outlays.

Auto sales have been supported by strong corporate and rental fleet sales. As those needs are being filled, auto sales should slow sharply. When recovery begins, sales will remain sluggish because of the high cost of auto ownership. However, the most remarkable change in consumer spending is in nondurables, where purchases have actually slowed in current dollars even as inflation has soared. If this reflects expectations of future earnings, as some economists maintain; then the consumer will be much slower to recover from the current slump. In that case, economic activity will continue to slow for all of 1991, and the recession will not be "mild." Certainly, the service sector shows less slowing, although imputed finance and housing expenditures account for some of that stability. Even in services, real spending has slowed to less than 3% in the fall quarter.

CONSTRUCTION-Tight credit conditions are especially impacting apartment construction. Many builders have discovered that FIRREA capital limitations have denied their thrifts from supporting apartment projects. At the same time, commercial banks are not looking for new development loans. The result has been a host of builders who cannot use the permits they already obtained because financing is unavailable. Although apartment construction is very low (occupancy is growing near 400,000 units, leading to a substantial decrease in apartment vacancies),only a gradual rebound is expected. Single family activity also may be approaching a bottom, as gradually falling mortgage rates, especially adjustable rate loans, are attracting a few buyers. Housing sales continued to fall in October, even with a weather related surge in activity in the Northeast. Thus, some further declines are likely before the housing market stabilizes. Certainly, permits, which are falling faster than activity, do not suggest a rebound soon.

Residential construction should fall for the remainder of this year, and could fall several months further than currently projected. The weakness in nonresidential private construction is widespread, although some industrial activity remains. Typically, nonresidential construction remains down until a new recovery is more than six months old. This time, however, the long drop in construction suggests that a turn is likely soon after the national economy turns. Public construction exhibits surprising strength despite weakness in state and local budgets. Sewers, schools, correctional institutions and highways account for this strength. Some release of funds to aid highway construction is expected as the recession progresses. Therefore, gains in public construction should remain substantial.

Construction prices have stalled from the weak demand conditions. Sluggish price changes could persist well into 1991, although some rebound in prices now seems likely, if only because prices of construction materials no longer are slipping.

BUSINESS ACTIVITY-Increased price pressures have added to the dollar values of business inventories. However, a sharp surge in inventory valuations indicate that no real accumulations of inventories is occurring. This suggests that an important volatile sector of the economy will not be a problem during this recession. Some inventory build-up at the retail and wholesale level is likely as spending falls below anticipations. However, the gains at the manufacturing level generally reflect price changes in petroleum products and chemicals. Because some of our internal adjustments suggest that inventories could be overstated during the fall, adjustments were made to the GNP estimates to reflect this. Therefore, some slowing in inventory investment could develop without requiring substantial changes in our GNP projections.

Some economists believe the recession is steep because of weakness in capital spending. However, such spending responds with a lag. This is apparent in nondefense capital shipments and in durable goods orders. Most of the current gains in orders reflect aircraft, which will not influence economic activity for another two years. These orders and shipments are expected to fall abruptly in the next few months because of prevailing economic conditions, although no drop has yet occurred. On the other hand, capital spending should follow its normal pattern of lagging the economy.

Industrial production almost certainly has fallen sharply during the fall. Further declines are likely in the winter and spring, as industrial materials continue to weaken. This will cause further reductions in capacity utilization, although the drop should not be precipitous enough to cause cancellations of orders.

PRICES-Our price deflator is now adjusted to capture shifts in the terms of trade. However, this should mean some higher than expected prices when oil prices decline, just as the deflator was weaker than expected when oil surged. Because some hostilities are expected by the end of January, a surge in oil prices is expected at that time. Then, prices should moderate significantly, leading to no commodity inflation by the summer. Unfortunately, improvement in the service price indices will be more difficult. While housing services will not be the problem in 1991 that it was in 1990, some delay in utility prices, postage rate increases, and further gains in lodging prices should preserve strong gains in service prices. Even transportation prices will remain strong. If oil and agricultural prices weaken simultaneously by mid-1991, a possible but unlikely outcome, some periods of actual price declines are possible next summer. At this point, however, the CPI is unlikely to average less than a 5% gain for 1991.

In order to generate substantially slower price gains, the economy would need to be significantly weaker than at present, or oil prices need to fall sharply and remain lower than currently expected. Because wages already are lagging behind prices, a deflation outlook also requires a substantial reduction in profitability, which almost certainly will lead to more aggressive employment declines than currently projected. Deflation currently is incompatible with a mild recession.

MISCELLANEOUS-Rising oil prices were responsible for the surge in the trade deficit. As the terms of trade deteriorated, with import prices rising faster than export prices, the deflator also was distorted during the fall, as it was during the summer. These high oil prices should continue to distort the trade balances until early next year. Once oil prices peak, however, the trade balances should improve sharply, leading to some improvement in the dollar's value.

Normally profits would plunge as economic activity drops. However, adjusted profits reflect operating profits less tax liabilities. As inventory profits incur tax liabilities but do not reflect changes in operating profits, most of the profit decline occurred while the IVA was rebounding. With oil prices cresting, some moderation in inventory prices is likely. This leads to reduced tax liability and an improvement in adjusted profits. Also, as interest rate liabilities slow, profits can rise even with gains in wage costs relative to revenues.

The leading indicators turned down decisively during the fall. Only orders and orders related conditions showed any strength, and most of those orders reflect aircraft that will not be assembled until the next recovery is well along. The dip in hours probably will not continue but rising unemployment claims and falling sensitive prices remain strong. Stock prices may be stabilizing, while the real money stock probably will begin growing once oil prices peak and begin declining. Building permits, the real money stock, and stock prices should provide most of the strength to signal an upturn in the indicators.

FINANCIAL MARKETS

The dollar's decline clearly has discouraged foreign investors from seeking American assets with one exception, Saudi Arabia. From selling 2 billion barrels at $17, the Saudis now are selling more than 3 billion barrels at nearly $30 per barrel. Because these gains are expected to be temporary, the Saudis have been parking the proceeds in short-term assets. While some of these funds have flowed to Europe, a large percentage has been placed in the United States. As a result, a normally adverse capital flow has been reversed, at least until the wealth holdings of Saudi Arabia change. Aiding this flow is growing concern about the liquidity pressures in Japan. Investors there are seeking liquid assets in Europe, causing a dramatic widening of the spread between the Eurodollar and domestic borrowing rates. This has undermined the strength of Japanese capital flows. This favorable flow of capital to the United States probably would shift after the first quarter, but a falling deficit could strengthen the dollar at that time, leading to more traditional flows from abroad. In any case, concerns that high foreign borrowing needs would continue to push domestic interest rates upward currently is not correct.

Savings in the household sector should continue to fall until the spring. However, household purchases of homes also is off. Therefore, reductions in the households' net contributions to credit markets should remain stable until next fall.

The corporate sector has been borrowing strongly in order to finance short-term operating needs and the bloated value of inventories. These borrowing needs should remain strong during the fall and then moderate in the winter. Moderation should persist into the summer, when a mild recovery should again create rising corporate borrowing activity.

Government borrowings remain intense. Indeed, the deficit probably will increase by $40-$50 billion in the fall and winter quarters. Even the increases in excise taxes will not be able to blunt deteriorating revenues. However, government borrowings should be growing more slowly than corporate borrowings are receding. While s little uptick in rates is likely if hostilities raise oil prices in January or February, the direction of interest rates should be downward under these conditions.

At the same time, the Federal Reserve is expected to be more aggressive in pumping reserves into the banking system. The removal of reserve requirements for CD's already acts to add some earning power to banks and release some reserves for deposit growth. Therefore, short-term interest rates should continue falling into the summer months.

EQUITY MARKETS-Falling interest rates were not enough to overcome falling profits and dollar values during the fall. By the winter, however, adjusted profits could be rising while interest rates should continue declining. Although the dollar may continue falling modestly, the shift in operating profits less tax liabilities (largely because of falling tax liabilities) should be enough to strengthen equity values once the war worries are over. Then a strong market rally is expected in the spring. However, the rally should run out of steam next summer. This is caused by the sluggish nature of the economic recovery. No rebound in stock values such as in 1983 is likely because no rebound in economic activity such as in 1984 is apparent.

The much maligned financial sector may have value now that reserve requirements are falling and short-term interest rates are declining. (Banks normally can stall in lowering their lending rates, leading to an increase in interest rate spreads). Construction materials and equipment companies also look interesting because of the prospects for rebuilding Europe and parts of the Middle East as well as some stirring of construction during the second half of next year in the United States. Because the recovery will be sluggish, cyclical stocks should be underweighted while technology stocks should only perform in line with the market (though positioned software companies should do decidedly better). Growth in foreign markets remains strong, so international corporations should continue to do well. The consumer stocks will be hammered by a poor Christmas. On balance, however, averaging into the market probably will be beneficial, especially after the Persian Gulf crisis eases

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj
July 1990	-9.12		146.1		5489		4171		-2.8
August	-9.73	-82.3	144.4	0.3	5518	5.8	4174	1.7	-34.9
September	-9.41		143.3		5555		4172		-39.7
October	-9.55 *		141.6		5562		4162		-42.4
November	-9.86	-10.0	141.0 *	-9.3	5560	3.0	4148	-2.1	-37.6
December	-9.53		140.8		5562		4141		-36.3
January 1991	-10.26		140.6		5564		4133		-32.7
February	-11.42	-54.2	140.9	-0.8	5571	0.7	4122	-2.3	-21.6
March	-10.57		141.1		5576		4124		-15.3
April	-9.78		142.0		5594		4124		-10.4
May	-9.26	46.6	141.7	2.8	5606	3.0	4121	-0.4	-7.8
June	-8.53		141.8		5634		4122		-7.9
July	-8.21		142.1		5668		4136		-8.8
August	-7.47	49.0	142.3	1.5	5694	5.6	4143	1.6	-10.2
September	-7.62		142.7		5705		4137		-10.9
October	-7.33		143.0		5741		4151		-11.6
November	-6.94	39.5	143.4	2.9	5769	5.4	4159	1.6	-12.4
December	-6.28		143.8		5783		4156		-10.5
Chng Dec(91)/Dec(90)		34.1		2.1		4.0		0.4	
Chng Dec(90)/Dec(89)		-40.2		-3.1		5.0		0.3	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	89.68		167.0		8.50		196.61	
August	86.55	-2.0	152.7	-33.3	8.86	5.3	181.45	-14.5
September	86.10		150.5		9.03		173.52	
October	83.43		149.1		8.86		168.05	
November	81.63 *	-22.3	152.1	-12.4	8.50 *	-11.2	176.95 *	-16.6
December	81.27		153.7		8.26		182.13	
January 1991	80.42		155.0		8.41		178.66	
February	79.26	-10.5	159.2	20.1	8.56	-4.3	178.41	10.9
March	79.93		162.0		8.37		183.82	
April	80.45		164.7		8.16		189.86	
May	81.73	8.3	166.0	18.4	8.11	-14.9	190.59	23.3
June	82.26		166.0		8.07		189.55	
July	82.43		165.0		7.96		189.13	
August	82.61	6.5	164.9	-1.4	7.91	-8.4	188.34	-1.4
September	83.28		165.0		7.94		190.53	
October	83.97		164.4		8.06		185.05	
November	83.25	5.9	164.1	-1.0	8.08	7.2	182.46	-12.6
December	84.66		165.3		8.09		181.68	
Chng Dec(91)/Dec(90)		4.2		7.5		-2.1		-0.3
Chng Dec(90)/Dec(89)		-14.3		-9.6		4.6		-5.5

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
July 1990	110740		124.8		117953		5.5	10.07	
August	110613	0.4	124.6	0.6	117658	-1.5	5.6	10.09	4.3
September	110561		125.3		117898		5.7	10.13	
October	110493		123.3		117711		5.7	10.13	
November	110386 *	-0.8	123.3 *	-5.1	117584 *	-0.8	5.9	10.16 *	2.8
December	110329		123.2		117526		6.0	10.21	
January 1991	110284		123.0		117478		6.1	10.24	
February	110273	-0.5	122.7	-1.5	117495	-0.5	6.2	10.27	4.1
March	110258		122.7		117403		6.4	10.30	
April	110227		122.6		117396		6.4	10.33	
May	110217	-0.2	122.6	-0.5	117405	-0.2	6.5	10.36	3.6
June	110212		122.7		117423		6.5	10.39	
July	110234		122.7		117454		6.6	10.42	
August	110251	0.1	122.8	0.5	117492	0.3	6.6	10.45	3.7
September	110265		122.9		117515		6.7	10.49	
October	110294		123.0		117546		6.8	10.53	
November	110352	0.4	123.2	1.2	117621	0.4	6.8	10.57	4.5
December	110398		123.3		117658		6.8	10.61	
Chng Dec(91)/Dec(90)		0.1		0.1		0.1			3.9
Chng Dec(90)/Dec(89)		0.9		-0.1		-0.3			3.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	4.664		2.727		184.5		3.959		3.774	
August	4.678	5.1	2.728	5.6	164.5	-49.1	3.969	4.7	3.805	8.4
September	4.699		2.745		145.2		3.985		3.840	
October	4.705		2.736		151.3		3.990		3.839	
November	4.719 *	3.5	2.745 *	1.9	153.9 *	-24.6	4.001 *	3.2	3.847 *	4.5
December	4.737		2.758		155.4		4.015		3.860	
January 1991	4.748		2.753		150.3		4.027		3.877	
February	4.758	3.2	2.766	2.8	145.9	-16.5	4.037	3.5	3.891	4.3
March	4.767		2.767		144.1		4.045		3.901	
April	4.793		2.783		151.2		4.065		3.914	
May	4.811	4.6	2.792	4.1	149.0	8.3	4.079	4.3	3.930	4.2
June	4.830		2.804		148.9		4.094		3.945	
July	4.840		2.805		137.5		4.102		3.965	
August	4.871	4.8	2.825	4.4	145.8	-14.0	4.127	4.5	3.981	5.3
September	4.894		2.839		149.3		4.145		3.996	
October	4.919		2.854		153.6		4.170		4.016	
November	4.944	6.4	2.870	6.8	157.1	38.4	4.189	6.4	4.032	5.4
December	4.969		2.885		158.4		4.209		4.051	
Chng Dec(91)/Dec(90)		4.9		4.6		1.9		4.8		4.9
Chng Dec(90)/Dec(89)		5.3		5.1		-8.9		5.0		5.7

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	3665.9		483.7		1192.1		1990.1		2695.2	
August	3696.1	8.5	476.9	3.0	1208.1	9.9	2011.1	9.1	2699.6	3.2
September	3730.9		485.2		1221.0		2024.7		2704.5	
October	3729.9		476.8		1219.6		2033.6		2686.7	
November	3738.1 *	4.6	474.8 *	-5.9	1218.5 *	4.2	2044.8 *	7.5	2681.3 *	-2.5
December	3750.4		472.5		1220.5		2057.5		2679.9	
January 1991	3767.5		473.3		1224.8		2069.4		2680.3	
February	3781.7	4.4	472.1	-1.6	1227.9	2.1	2081.7	7.3	2679.3	-0.1
March	3791.3		473.2		1224.6		2093.6		2686.0	
April	3803.9		475.3		1223.2		2105.4		2690.4	
May	3819.9	4.2	477.7	3.5	1224.9	-0.2	2117.3	7.1	2693.4	1.6
June	3834.8		477.8		1226.9		2130.1		2694.7	
July	3854.0		481.1		1230.5		2142.4		2701.0	
August	3870.4	5.4	482.1	4.3	1234.7	3.0	2153.6	7.0	2704.5	1.6
September	3884.6		482.7		1236.9		2165.1		2705.9	
October	3904.9		486.6		1240.7		2177.5		2711.4	
November	3920.2	5.4	486.7	4.6	1243.1	3.1	2190.4	7.0	2713.4	1.5
December	3938.6		488.9		1246.8		2202.9		2717.7	
Chng Dec(91)/Dec(90)		5.0		3.5		2.2		7.1		1.4
Chng Dec(90)/Dec(89)		5.8		0.5		5.5		7.3		-0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	150.20		22.77		9.7		96.00		31.43	
August	150.24	6.9	22.67	-0.4	9.4	7.2	97.18	10.8	30.40	1.3
September	152.13		22.51		10.1		98.34		31.28	
October	152.32		22.69		9.3		98.14		31.49	
November	152.01 *	3.3	22.53 *	-1.8	9.2 *	-20.2	98.05 *	4.0	31.43 *	4.7
December	151.90		22.43		9.1		98.21		31.26	
January 1991	152.34		22.47		9.1		98.56		31.31	
February	152.46	0.8	22.45	-1.2	9.0	-7.1	98.81	2.1	31.20	-1.8
March	152.31		22.53		9.0		98.54		31.24	
April	152.44		22.58		9.1		98.43		31.43	
May	152.85	1.1	22.61	1.7	9.2	6.0	98.57	-0.2	31.67	4.8
June	153.02		22.54		9.2		98.73		31.75	
July	153.69		22.73		9.3		99.02		31.94	
August	154.14	3.4	22.66	2.0	9.4	9.0	99.36	3.0	32.12	6.0
September	154.38		22.67		9.4		99.53		32.18	
October	155.14		22.84		9.5		99.84		32.46	
November	155.34	3.6	22.80	2.4	9.5	7.3	100.03	3.1	32.51	6.2
December	155.89		22.83		9.6		100.33		32.73	
Chng Dec(91)/Dec(90)		2.6		1.8		5.5		2.2		4.7
Chng Dec(90)/Dec(89)		4.2		0.8		2.2		5.5		2.7

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	1.153		0.875		0.278		1.082	
August	1.131	-22.2	0.836	-20.4	0.295	-39.7	1.050	-17.8
September	1.107		0.863		0.244		0.992	
October	1.041		0.854		0.187		0.925	
November	1.019 *	-31.0	0.846 *	-3.2	0.173 *	-81.2	0.906 *	-40.6
December	1.031		0.853		0.178		0.911	
January 1991	1.048		0.863		0.185		0.920	
February	1.058	9.8	0.870	7.2	0.188	22.5	0.934	8.3
March	1.058		0.865		0.193		0.943	
April	1.073		0.875		0.198		0.937	
May	1.086	14.6	0.879	7.9	0.207	49.6	0.956	10.1
June	1.115		0.894		0.221		0.972	
July	1.127		0.899		0.228		0.991	
August	1.135	17.5	0.902	9.5	0.233	56.3	0.995	19.3
September	1.147		0.908		0.239		1.008	
October	1.145		0.899		0.246		1.026	
November	1.166	10.9	0.911	4.0	0.255	40.4	1.044	19.3
December	1.187		0.926		0.261		1.059	
Chng Dec(91)/Dec(90)		15.1		8.6		46.6		16.2
Chng Dec(90)/Dec(89)		-12.3		-7.2		-48.0		-35.7

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	144.7		108.1		188.5		441.3		399.3	
August	139.6	6.0	115.8	7.5	185.8	-10.1	441.2	-7.5	398.4	-8.9
September	138.4		109.4		181.2		428.9		388.8	
October	137.1		117.8		179.5		434.4		394.0	
November	136.7 *	-11.2	110.6 *	8.0	178.2 *	-13.8	425.5 *	-7.7	385.1 *	-7.6
December	136.5		111.4		177.6		425.5		384.4	
January 1991	136.6		111.9		178.3		426.8		385.5	
February	136.0	-1.8	113.5	-1.9	178.1	0.1	427.6	-1.1	385.6	-2.5
March	135.8		112.8		179.0		427.6		384.9	
April	136.2		113.2		179.4		428.8		385.3	
May	136.5	1.2	113.5	2.7	179.8	3.4	429.8	2.5	385.5	0.2
June	136.9		113.8		180.7		431.4		385.9	
July	137.3		114.1		181.3		432.7		386.3	
August	137.8	3.7	115.3	4.7	181.8	4.4	434.9	4.3	387.3	1.4
September	138.2		115.0		182.7		435.9		387.1	
October	138.6		115.5		184.0		438.1		388.4	
November	139.1	3.9	115.9	3.8	184.3	5.5	439.3	4.6	388.4	1.6
December	139.6		116.2		184.9		440.7		388.6	
Chng Dec(91)/Dec(90)		2.3		4.3		4.1		3.6		1.1
Chng Dec(90)/Dec(89)		0.8		4.1		-6.3		-1.5		-3.2

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	373.3		128.09		39.84		35.10	
August	374.3	3.2	126.98	3.2	35.87	20.9	36.72	4.6
September	376.5		124.94		38.26		36.60	
October	378.1 *		129.45		41.45		36.54	
November	379.6	5.1	126.78 *	3.4	37.25 *	8.2	36.81 *	7.4
December	380.5		126.94		37.53		37.02	
January 1991	381.7		126.53		36.84		36.73	
February	382.5	3.5	126.12	-5.5	36.61	-22.6	36.75	-0.7
March	383.9		125.11		35.58		36.69	
April	385.2		125.42		35.94		36.52	
May	386.8	4.2	125.05	-0.9	35.72	-4.4	36.27	-4.5
June	388.0		126.47		36.15		36.12	
July	389.4		126.93		36.47		36.21	
August	390.9	4.4	126.74	3.3	36.38	4.7	36.25	-0.4
September	392.2		126.34		36.21		36.34	
October	393.8		126.98		36.19		36.47	
November	395.1	4.5	128.11	2.4	36.49	-0.6	36.42	1.7
December	396.5		127.15		36.22		36.37	
Chng Dec(91)/Dec(90)		4.2		0.2		-3.5		-1.8
Chng Dec(90)/Dec(89)		2.7		-3.6		-15.5		5.9

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	802.2		8.95		110.4		83.8	
August	807.5	4.8	9.11	-3.2	110.4	3.7	83.5	1.1
September	811.5		8.91		110.5		83.5	
October	814.6 *		8.76		109.6		82.6	
November	816.8	5.0	8.56 *	-11.8	109.1 *	-4.4	82.0 *	-7.0
December	819.5		8.82		108.9		81.7	
January 1991	822.2		8.74		108.8		81.4	
February	824.8	3.9	8.62	-1.4	108.6	-2.1	81.1	-4.6
March	827.6		8.69		108.5		80.9	
April	830.9		8.73		108.5		80.7	
May	833.5	4.2	8.61	-0.2	108.3	-0.9	80.4	-3.4
June	835.8		8.70		108.4		80.2	
July	838.7		8.71		108.4		80.1	
August	841.8	4.0	8.76	1.9	108.6	0.6	80.1	-1.8
September	844.3		8.69		108.7		80.0	
October	847.2		8.74		108.9		80.0	
November	850.9	4.3	8.77	0.9	109.1	2.0	80.0	-0.3
December	853.6		8.71		109.3		80.0	
Chng Dec(91)/Dec(90)		4.2		-1.2		0.4		-2.1
Chng Dec(90)/Dec(89)		3.2		-10.0		0.3		-2.1

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	130.5		117.5		113.2		131.6	
August	131.5	6.4	119.0	5.9	115.9	9.3	132.2	4.0
September	132.5		120.9		118.3		133.1	
October	133.3		122.2		121.3		133.6	
November	133.9 *	7.3	122.6 *	12.2	120.7 *	18.0	134.0	5.2
December	134.4		123.0		120.1		134.3	
January 1991	135.0		123.6		122.1		134.6	
February	135.5	4.5	124.2	4.1	123.4	5.5	135.2	3.1
March	135.5		123.7		121.5		135.2	
April	135.8		123.6		120.3		135.6	
May	136.2	2.5	123.9	0.0	119.7	-7.5	136.0	3.4
June	136.6		124.1		119.9		136.7	
July	137.0		124.4		120.2		137.0	
August	137.4	3.7	124.6	2.5	120.5	0.4	137.4	4.0
September	137.8		124.9		119.6		137.9	
October	138.3		125.2		121.6		138.3	
November	138.7	3.8	125.5	2.8	122.0	6.4	138.7	3.7
December	139.2		125.8		122.3		139.2	
Chng Dec(91)/Dec(90)		3.6		2.2		1.8		3.6
Chng Dec(90)/Dec(89)		6.9		6.6		6.9		5.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	136.0		112.2		130.0		147.7		110.5	
August	136.9	5.2	112.3	0.9	131.2	6.4	148.6	5.5	110.7	1.0
September	138.0		112.6		133.1		149.3		110.3	
October	138.8		112.8		134.7		149.7		110.3	
November	139.4 *	7.3	113.0 *	2.2	135.3 *	12.2	150.3 *	4.8	110.5	0.0
December	139.9		113.1		135.8		150.9		110.7	
January 1991	140.6		113.3		136.6		151.5		110.7 *	
February	141.1	4.5	113.4	1.5	137.3	4.6	152.1	4.8	110.9	1.5
March	141.2		113.5		136.5		152.6		111.1	
April	141.4		113.7		136.2		153.2		111.3	
May	141.8	2.5	113.9	1.7	136.5	-0.9	153.8	4.7	111.5	2.3
June	142.3		114.0		136.8		154.5		111.8	
July	142.7		114.2		137.1		155.0		112.0	
August	143.1	3.7	114.3	1.6	137.4	2.7	155.6	4.7	112.3	2.8
September	143.6		114.5		137.7		156.2		112.6	
October	144.0		114.7		138.1		156.8		112.8	
November	144.5	3.8	114.9	1.9	138.4	3.0	157.4	4.7	113.1	2.9
December	144.9		115.0		138.8		158.0		113.4	
Chng Dec(91)/Dec(90)		3.6		1.7		2.2		4.7		2.4
Chng Dec(91)/Dec(90)		5.9		1.3		9.1		4.9		1.7

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	309.2		809.0		3287.8		8.15		7.52	
August	312.5	8.9	815.8	4.2	3305.3	3.1	8.13	-4.0	7.38	-16.3
September	316.8		822.1		3319.2		8.20		7.32	
October	318.5		820.1		3320.1		8.11		7.16	
November	319.9 *	9.2	823.7 *	3.8	3319.6 *	2.7	7.83 *	-17.9	7.05 *	-19.5
December	320.9		826.3		3339.5		7.36		6.84	
January 1991	322.1		829.3		3352.1		7.22		6.73	
February	323.6	4.9	832.4	4.4	3363.1	4.5	6.93	-36.2	6.65	-20.9
March	325.2		835.4		3375.6		6.67		6.47	
April	326.9		838.1		3389.4		6.55		6.50	
May	328.5	6.0	841.6	4.4	3402.5	4.8	6.59	-19.7	6.53	-4.7
June	329.7		844.7		3417.4		6.57		6.58	
July	331.0		848.3		3431.6		6.62		6.64	
August	332.8	5.4	852.1	5.2	3448.9	5.4	6.65	3.9	6.67	6.9
September	334.3		855.9		3462.7		6.63		6.63	
October	335.9		859.3		3478.5		6.68		6.69	
November	337.3	5.6	863.1	5.3	3491.2	5.4	6.72	5.1	6.71	3.9
December	338.7		867.2		3510.4		6.75		6.73	
Chng Dec(91)/Dec(90)		5.5		4.9		5.1		-8.3		-1.6
Chng Dec(90)/Dec(89)		8.6		4.0		3.7		-12.9		-19.1

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	9.24		7.19		7.99		8.10		10.00	
August	9.41	0.3	7.32	-1.6	7.88	1.1	7.97	-13.2	10.00	0.0
September	9.56		7.43		7.96		8.06		10.00	
October	9.53		7.49		7.98		8.06		10.00	
November	9.31 *	-3.6	7.16 *	-5.4	7.85 *	-9.9	7.98 *	-9.0	10.00 *	-4.3
December	9.11		6.99		7.39		7.53		9.67	
January 1991	9.37		7.22		7.25		7.37		9.50	
February	9.52	5.8	7.46	7.8	7.04	-32.8	7.18	-31.2	9.50	-17.1
March	9.46		7.37		6.73		6.92		9.31	
April	9.25		7.21		6.64		6.81		9.00	
May	9.18	-11.7	7.13	-13.6	6.62	-19.5	6.76	-19.1	9.00	-17.3
June	9.05		6.92		6.65		6.79		9.00	
July	8.97		6.84		6.73		6.85		9.00	
August	8.95	-9.0	6.82	-14.9	6.78	7.2	6.91	5.2	9.00	0.0
September	8.92		6.76		6.75		6.86		9.00	
October	8.97		6.83		6.79		6.92		9.00	
November	8.99	1.2	6.86	2.4	6.81	3.4	6.95	4.3	9.00	0.0
December	8.96		6.85		6.83		6.97		9.00	
Chng Dec(91)/Dec(90)		-1.5		-2.0		-7.6		-7.4		-6.9
Chng Dec(90)/Dec(89)		2.8		0.1		-10.9		-9.5		-7.9

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.